The Recent Surge in Corporate Profits and Tax Revenue

By Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle

Before-tax corporate profits of nonfinancial corporations surged to 7.8 percent of net national product in the second quarter of 2006, having risen steadily from a post-war low of 3.6 percent, in the fourth quarter of 2001, after a stock market plunge. Noting this growth, various commentators have attempted to interpret and predict economic events ranging from the distribution of income in society to the prospects for the stock market. That has caused us to go back and retest whether the after-corporate-tax returns to all corporate capital owners maintain the steadier share of net national product on which we have commented for many years. That latter measure includes net interest payments paid by firms but subtracts profits tax liability from corporate profits.

Once again, we find that the income of corporate capital owners of nonfinancial corporations, net of corporate tax, has remained much steadier than corporate profits, oscillating around 5.9 percent (6 percent from 1940 to 2005, 5.7 percent from 2000 to 2006). The income of all corporate capital owners did increase roughly 40 percent relative to net national income from its trough in late 2001, but is still not much above its 1940-2006 average. As has often been the case, the rise in corporate profits accompanied or was accompanied by a fall in interest payments and a rise in profits tax liability.

The data tell those attempting to interpret changes in the distribution of income to turn their attention toward the distribution of labor income, including stock options, while those predicting future profit trends must look closely at corporate debt and interest rates paid on that debt.

![Graph showing Total After-Tax Returns to All Owners of Corporate Capital, Nonfinancial Corporations]

**Source:** Authors’ calculations. Based on data from the Bureau of Economic Analysis, NIPA, Tables 1.7 and 1.14.